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C O N F I D E N T I A L SECTION 01 OF 02 THE HAGUE 000935

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STATE FOR EUR DAS BRYZA, EUR/UBI (RREITER)
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TAGS: ETTC, PREL, ENRG, EPET, NL, IR
SUBJECT: ISA (FORMERLY ILSA): DUTCH AND SHELL ON
INVESTMENTS IN IRAN

REF: STATE 47688

Classified By: Economic Section Chief Karen Enstrom,
reasons 1.4 (b and d).

1. (C) SUMMARY. A Shell official confirmed the company
does not expect to make any final investment decisions before

mid-2008 or early 2009 on the Persian LNG and Yadavaran gas and oil investment projects in Iran. Dutch Foreign Ministry officials noted surprise with the Iranian announcement of a faster timetable for a deal with the Chinese oil firm Sinopec on Yadavaran. These officials reiterated that Shell regularly briefs them on its activities in Iran. END SUMMARY.

2. (C) Econoff discussed on April 17 reftel points regarding USG concerns and opposition to oil and gas investments in Iran with Dutch Ministry of Foreign Affairs (MFA) officials Daphne Bergsma, Acting Head of the Gulf States Division in the North Africa and Middle East Department, and Loek ten Hagen, Senior Policy Officer and Desk Officer for Iran in the same department. On May 3, Econoffs also raised reftel points with John Crocker, Head of Royal Dutch Shell's International Government Relations and Senior Advisor for North Africa, Middle East, Central Asia, Ukraine, and Russia, and Lynn Azar, Shell's Regional Advisor for the Middle East and North Africa.

MFA "Surprised" By Iranian Announcement

3. (C) Bergsma said recent press statements from Iranian Oil Minister Vaziri Hamaneh on an impending final investment deal with Chinese oil firm Sinopec on developing the Yadavaran field had taken the GONL "by surprise." Recent information from officials from Shell, which has an interest in developing Yadavaran with Sinopec, had indicated a final decision would not occur until 2008 or later, she added. Officially, she said, the GONL did not interfere in Shell's decision-making process. Nonetheless, Shell officials had assured the MFA that the company would consider all factors -- including political -- prior to any final investment decision. Ten Hagen confirmed the MFA was in regular contact with Crocker on Shells' Iran activities.

Shell's Iran Strategy

4. (C) With expected declines in European gas and oil production, decreased reliability of Russian supplies, few viable alternatives, increasing reliance on natural gas, and long development cycles for energy projects (up to ten years), Crocker said Shell had concluded that stable future energy prices were dependent on outside investment in Iran and the pursuit of "big projects." While Shell had no plans at present to increase its involvement beyond the Persian LNG (South Pars), Yadavaran, and other projects aimed at helping Gulf countries overcome supply challenges, Crocker said the company still needed to think strategically now in preparation for any future investments. He said a May 1998 decision by the USG to waive Iran-Libya Sanction Act (ILSA) sanctions for France's Total, Russia's Gazprom, and Malaysia's Petronas had led Shell to believe future Iran

energy projects would also receive similar waivers.

5. (C) Crocker reiterated that Shell was fully aware of USG concerns about investments in Iran's oil and gas sector and the potential harm caused by public announcements at this sensitive time. He emphasized the importance of delivering similar messages to the Chinese regarding Sinopec. He said

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Shell was also following closely all pending Congressional legislation that might tighten Iran Sanction Act (ISA) implementation.

6. (C) Crocker stressed that Shell regularly briefs relevant governments and the EU, including Commission President Jose Barroso. According to Crocker, Barroso and other EU governments were less concerned about Shell's exploratory activities in Iran. There was a need to balance political concerns with the freedom of business to operate, he added.

Persian LNG: No Final Decision Before Mid-2008

7. (C) Under the initial September 2004 framework agreement between Shell and Iran, a final Persian LNG investment decision was expected by 2006, Crocker explained. He said Shell now anticipated that a final decision was not likely before mid-2008, although the Iranians still hoped for a decision by the end of 2007. Some elements of the agreement continued to move forward, Crocker acknowledged, as the parties tried to develop a shared timeline.

8. (C) Any final Shell investment decision would be based on such economic factors as the projected market, customers, financial aspects, and potential risks, Crocker said. Given changes in these factors since 2004, he indicated that the chances of concluding an investment decision based on the 2004 framework agreement were slim. Moreover, the 2004 agreement was negotiated at lower energy price levels, which Crocker suggested even Iran would have problems accepting at this stage. A renegotiation of the framework agreement would add another six months to any projected timetable, he added.

Yadavaran: Final Decision In Early 2009?

9. (C) Crocker said it was hard to predict whether Shell would succeed in securing favorable terms from Iran for investing in Yadavaran. Shell had not yet agreed on a Yadavaran strategy, he added. If Shell did move forward on the project, he indicated that a framework agreement might be possible in late 2007, followed by a final investment decision in early 2009. He said he had noticed more urgency

recently on the part of Iran in determining whether to pursue development of Yadavaran alone. Iran was also considering an option for 100 percent foreign ownership during development with a full transition back to the Iranian state following implementation, he noted.

10. (C) Crocker argued that Iran would develop Yadavaran with or without foreign involvement in order to maintain current oil production levels. With a six-year implementation and investment pay-back cycle, however, he said Iran would only begin to receive revenues from the project starting in 2015. "Current investments thus would serve the Iranian people and the world of tomorrow, and not the Iran of today, " he stressed. Western expertise could also serve to increase the extraction rate for Yadavaran by 40 or 50 percent over ten years, rather than only 20 percent if Iran pursued Yadavaran alone, he added.

ARNALL

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